

# Executive Summary

**T**ax and service duplication, commonly known as "double taxation," exists when both a county and a city within the county charge the city's taxpayers for the same kinds of services, but taxpayers ultimately receive those services only from the city. Maryland law authorizes the county's return to the city of taxes the county received from city residents for duplicated services, either as a rebate paid to the city or as a tax differential that lowers the county tax rate for the city's taxpayers. Montgomery County has chosen the rebate method.

In FY05 Montgomery County rebated to the City of Takoma Park a total of \$3.1 million for police, crossing guard, road maintenance and park maintenance services that the City provided in lieu of the County. No rebate was paid for duplicative services in housing, recreation and the library, although the County did pay the City established payments of \$100,000 for recreation and approximately \$90,000 for the library.

The Residents' Committee on Tax and Service Duplication Issues found that the County's rebate to the City was significantly less than the City's actual costs for delivering duplicative services, and far less than the amount the County would likely spend if the City elected not to provide those services. According to the Committee's calculations, a more accurate rebate would be at least \$4.1 million and possibly as high as \$7.8 million.

Part of the gap exists because the County fails to take into account its own administrative and capital costs. The Committee found additional methodological flaws in the County's rebate formulas that also result in an underpayment. The Committee recommends that the City Council negotiate with the County to correct these defects and calculate a rebate that delivers Takoma Park taxpayers full and accurate relief from double taxation.

The Committee additionally urges the City Council, in league with other Maryland municipalities, to seek reform that provides municipalities the opportunity to challenge through judicial review or arbitration the accuracy and comprehensiveness of county rebates, reforming the current situation in which the county is the ultimate authority.

The Committee also concluded that the current arrangement for the County's "pass-back" to the City of income tax payments by Takoma Park residents, currently set at 17 percent, is inadequate and unfair to municipalities that provide high service levels and serve relatively less affluent populations. The Committee recommends that the City Council pursue reform of the current income tax pass-back framework to mitigate these inequities. This could involve a change in the pass-back formula, realigning the pass-back to reflect the relationship between the City's tax rate and the countywide property tax rate, or an increase in the percentage underlying the pass-back itself.

As another option for regaining a larger share of income taxes paid by city residents, the Committee recommends that the City Council attempt to establish a form of regional revenue sharing as is done in other metropolitan areas where fiscal resources are redistributed to communities with greater social need.